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Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03 PA-01

PRS-01 (ISO) W
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R 020705Z JUN 75
FM AMEMBASSY ABU DHABI
TO SECSTATE WASHDC 2994
INFO AMEMBASSY JIDDA

C O N F I D E N T I A L ABU DHABI 1170

E.O. 11652: GDS
TAGS: ENRG, TC
SUBJECT: UAE PETROLEUM MINISTRY INTEREST IN GAS SUPPLY RELATIONSHIP
WITH U.S.

REF: ABU DHABI 1128

1. SUMMARY: UAE MINISTER OF PETROLEUM HAS INDICATED HIS INTEREST IN EXPLORING WITH USG COOPERATION FOR DEVELOPMENT OF ABU DHABI GAS RESERVES AND FOR LONG-TERM SUPPLY OF GAS TO US. WE BELIEVE THIS IS MAJOR OPPORTUNITY FOR COOPERATION BETWEEN OUR TWO COUNTRIES AND URGE WASHINGTON AGENCIES TO EXPLORE POSSIBILITIES FULLY DURING OTAIBA'S FORTHCOMING TWO-DAY VISIT TO WASHINGTON. END SUMMARY.

2. OTAIBA'S EXPRESSED WISH TO ME TO TALK ABOUT COOPERATION BETWEEN US AND UAE FOR DEVELOPMENT OF ABU DHABI'S VERY CONSIDERABLE GAS DEPOSITS PRESENTS US WITH REAL OPPORTUNITY TO DEVELOP STRONG LINKAGE WITH THIS COUNTRY IN AREA OF VITAL IMPORTANCE TO ITS LONG-TERM ECONOMIC WELL-BEING. CONNECTION OF THIS SORT IF IT CAN BE ESTABLISHED WILL GIVE ABU DHABI INCREASED STAKE IN WEIGHING CONSEQUENCES OF TRYING TO USE ITS RESOURCES AS POLITICAL WEAPON.
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THERE IS OF COURSE ADDITIONAL CONSIDERATION THAT COOPERATIVE

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FRAMEWORK ON SUPPLY ARRANGEMENTS WILL HELP TO ENSURE THAT US
FIRMS GET MAJOR SHARE OF CONSTRUCTION AND MANAGEMENT CONTRACTS
WHICH WILL TOTAL MORE THAN BILLION DOLLARS BY TIME ABU DHABI'S
GAS DEPOSITS ARE FULLY EXPLOITED. WE THEREFORE HOPE THIS ASPECT
OF OTAIBA'S VISIT CAN BE GIVEN HIGH-LEVEL USG ATTENTION DURING HIS
VISIT.

3. AS DEPARTMENT IS AWARE, ABU DHABI AND GROUP OF ADPC OWNERS
HAVE BEEN TALKING FOR SEVERAL YEARS ABOUT PROJECT TO UTILIZE GAS
ASSOCIATED WITH PRESENT ON-SHORE OIL PRODUCTION'S NEGOTIATIONS HAVE
BOGGED DOWN ON TWO ISSUES, FIRST, COMPANIES UNWILLINGNESS TO
PUT UP THEIR SHARE OF LARGE INITIAL CAPITAL OUTLAY UNLESS PROFITA-
BILITY OF OPERATION IS VERY HIGH; SECOND, COMPANIES CONCERN THAT
BECAUSE GAS IS ASSOCIATED PRODUCTION OF GAS LIQUIDS WILL BE VUL-
NERABLE TO ANY FLUCTUATION IN OIL PRODUCTION. TO DEAL WITH LATTER,
COMPANIES HAVE COME UP WITH IDEA OF TAPPING INTO MUCH LARGER RESERVES

OF NON-ASSOCIATED GAS LYING BELOW BAB OIL FIELD TO USE THIS AS
RESERVOIR TO MAKE UP FOR ANY DEFICIENCIES IN FLOW OF ASSOCIATED GAS.
IN SPITE OF THIS, ACCORDING TO OUR LATEST INFORMATION, SIZABLE GAP
REMAINS BETWEEN POSITIONS OF TWO SIDES.

4. OTAIBA TOLD ME HE NEVERTHELESS BELIEVES COMPANIES AND
GOVERNMENT MIGHT EVENTUALLY COME TO TERMS, BUT THIS WOULD IN
ANY CASE TAKE CARE OF ONLY PART OF PROBLEM. UNDER PRESENT PRO-
POSALS COMPANIES WOULD USE ONLY LIGHT END OF NGL PRODUCTION,
LEAVING SOME GAS TO BE FLARED AND ALSO LEAVING ESSENTIALLY UN-
TOUCHED ABU DHABI'S MUCH LARGER NON-ASSOCIATED GAS RESERVES.
OTAIBA BELIEVES HIS GOVERNMENT MUST BEGIN NOW TO DEVELOP THIS
SIGNIFICANT RESOURCE ALONG SOUND, LONG-TERM LINES.

5. NO ONE KNOWS FOR SURE EXTENT OF ABU DHABI'S GAS RESERVES BUT
EVERYONE AGREES THAT THEY ARE CONSIDERABLE. VERY LARGE
KNOWN RESERVOIR LIES BELOW OIL-BEARING STRUCTURE AT BAB AND
GEOLOGISTS BELIEVE THERE MAY BE FURTHER LARGE RESERVOIR IN TIHANA
F FORMATION BELOW THIS. GOVERNMENT HAS ASKED ADPC TO INCLUDE
IN ITS DRILLING PROGRAM FOR THIS YEAR SEVERAL TEST WELLS TO DEFINE
EXTENT OF GAS RESERVES. EVEN ON BASIS OF PRESENT KNOWLEDGE THERE
IS LITTLE DOUBT IN JUDGMENT EXPERTS THAT ABU DHABI HAS POTENTIAL
TO BE MAJOR GAS PRODUCER.
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6. OTAIBA DOES NOT THINK ADPC OWNERS ALONE ARE PREPARED TO PUT
UP CAPITAL TO DEVELOP THESE RESOURCES, NOR THAT THEY WOULD BE
CAPABLE OF HANDLING MARKETING OF SUCH LARGE QUANTITIES OF GAS OR
GAS PRODUCTS. "BESIDES," SAID OTAIBA TO ME, "AS PRODUCERS WE DO NOT W
ANT TO
HAVE ALL OUR EGGS IN ONE BASKET ANY MORE THAN CONSUMERS
WANT TO BE DEPENDENT ON ONE SOURCE OF SUPPLY." HE ENVISAGES

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TRYING TO REACH LONG-TERM SUPPLY DEALS WITH SEVERAL LEADING
CONSUMERS, AND BECAUSE OF ITS VAST POTENTIAL HE CLEARLY SEES AN
ASSURED US MARKET FOR APORTION OF ABU DHABI'S GAS AS DESIRABLE.
HE TELLS US THAT HE HAS ALREADY APPROACHED JAPANESE AND WILL BE
DOING SAME WITH FRENCH DURING ZAYID'S VISIT NEXT MONTH TO PARIS.
DURING WASHINGTON VISIT HE WOULD LIKE TO BE PUT IN TOUCH WITH US FIRM
S
THAT WOULD BE INTERESTED IN DISCUSSION SUCH LONG-TERM SUPPLY DEAL.
OTAIBA REALISTICALLY ASSUMES THAT ANY DEAL WITH PRIVATE US INTERESTS
WILL BE FURTHERED BY ESTABLISHING FRAMEWORK OF GOVERNMENT-TO-
GOVERNMENT UNDERSTANDING. HE MENTIONED POSSIBILITY OF ESTABLISHING
US-UAE COMMITTEE FOR THIS PURPOSE.

7. I TOLD OTAIBA THAT US OFFICIALS WOULD WANT TO TALK ABOUT POLITICAL
AS WELL AS ECONOMIC IMPLICATIONS OF LONG-TERM SUPPLY ARRANGEMENTS.
PEOPLE WOULD REMEMBER THAT IN SEPTEMBER 1973 ABU DHABI WAS FIRST
ARAB STATE TO DECLARE EMBARGO AGAINST US. OTAIBA SAID TIMES HAVE
CHANGED. SHAIKH ZAYID NOW BELIEVES US IS MAKING MUCH GREATER
EFFORT TO RESOLVE ARAB-ISRAEL CONFLICT, AND TWO AGREEMENTS ALREADY
ACHIEVED WITH U.S. ASSISTANCE WERE SOLID EVIDENCE OF THIS. EQUALLY
IMPORTANT WAS EXPERIENCE BOTH PRODUCING AND CONSUMING NATIONS HAD
UNDERGONE IN PAST 18 MONTHS WHICH HAD FORCEFULLY DEMONSTRATED NEED
FOR COOPERATIVE ARRANGEMENTS BETWEEN TWO FOR SAKE OF STABLE
ECONOMIC CONDITIONS IN WORLD AS WHOLE. OTAIBA SAID HE WOULD
NOT RULE OUT WHAT HIS GOVERNMENT WOULD DO "IN DESPERATE CIRCUM-
STANCES" ANY MORE THAN USG COULD BUT HE COULD SAY THERE WAS NOW
WITHIN UAEG "COMPLETE RELUCTANCE" TO USE OIL AS POLITICAL WEAPON.
HE REITERATED--SAYING IT REFLECTED SHAIKH ZAYID'S VIEWS--THAT
ATTITUDE WITHIN UAEG TODAY ON THIS POINT WAS TOTALLY DIFFERENT FROM
1973.

8. IT HAS BEEN CUTUPLE OF YEARS SINCE OTAIBA LAST VISITED WASHINGTON.
WE BELIEVE US OFFICIALS ON THIS OCCASION WILL FIND HIM TO BE MATURED,
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INNCZLIGENT, AND KNOWLEDGEABLE OFFICIAL. HIS STANDING REMAINS VERY
GOOD WITH SHAIKH ZAYID WHO RECOGNIZES HIM TO BE ONLY ABU DHABIAN
AROUND WITH FIRST-CLASS KNOWLEDGE OF OIL MATTERS. ONE CAN RETAIN A
MEASURE OF SKEPTICISM ABOUT ASSURANCES IN ABOVE PARA (AND UNDOUBTEDLY
WE SHOULD) BUT THAT DOES NOT DETRACT FROM OUR INTEREST IN PURSUING
ECONOMIC ARRANGEMENTS WHICH WILL TEND TO MAKE UAEG MORE CAREFUL IN
FUTURE ABOUT USING ITS RESOURCES AS POLITICAL WEAPON. THRUST OF UAEG

POLICY FOR PAST SIX MONTHS HAS BEEN TO ESTABLISH TERMS THAT MAKE IT
PROFITABLE FOR OIL COMPANIES TO CONTINUE OPERATIONS AND DEVELOPMENT
HER, EVEN IF THIS MEANS BREAKING STEP WITH TREND IN OPEC. OTAIBA IS
LEADING PROPONENT OF THIS AND WE BELIEVE HE WILL ARRIVE IN WASHINGTON

WITH POINT OF VIEW THAT PUTS ABU DHABI'S LONG-TERM ECONOMIC INTEREST
AHEAD OF OTHER CONSIDERATIONS.

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9. WE WOULD APPRECIATE IT IF DEPARTMENT COULD NOTIFY US COMPANIES
THAT MAY BE INTERESTED IN SEEING OTAIBA DURING HIS VISIT. WE WOULD
ALSO WELCOME WASHINGTON'S PRELIMINARYVIEWS ON
POSSIBILITIES FOR US RESPONSE TO OTAIBA'S APPROACH.
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